

November 23, 2021

Economic Acumen

Commentary by CEBI Research Team

In Brief

- HK's economy grew by 5.4% and 0.1% on year-on-year basis and adjusted quarter-on-quarter basis respectively during 3Q2021. For the first three quarters of 2021, HK's economy grew by 7.0% YoY. The rise of economic activities was attributed to the strengths of recovery built upon decelerating health risks, expansion of total exports of goods and revival of consumption-related activities. Job market conditions showed improvement as unemployment rate dropped to 4.3% between August and October.
- HK's economy is still facing economic challenges in 4Q2021 and 2022 as HK confronts the threat of Delta variant (DV) alongside the renewed surge in coronavirus cases intensifying in a number of emerging and developed economies.
- HK will embrace a stable pace of economic recovery in 4Q2021 and 2022 on higher vaccination rate closer to achieve towards herd immunity, expected reopening of border with mainland China and continuation of sectors' recovery. We remain cautiously optimistic towards HK's economy with GDP growth recovering to positive growth of 6.5% in 2021.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

HK's economy encountering further rebound in 3Q2021

Hong Kong (HK) economy maintained recovery momentum in the third quarter of 2021 as real GDP grew by 5.4% and 0.1% on year-on-year basis and adjusted quarter-on-quarter basis respectively. For the first three quarters of 2021, HK's economy grew by 7.0% YoY. The rise of economic activities was attributed to the strengths of recovery built upon decelerating health risks, expansion of total exports of goods and revival of consumption-related activities. Job market conditions showed improvement as unemployment rate dropped from 7.2% in the beginning of 2021 to August-to-October's 4.3%. In sum, the distribution of electronic vouchers worth HK\$5,000 to permanent residents helps boost economic recovery while the swift rollout of coronavirus vaccines will allow businesses to operate at higher capacity, thus speeding up economic rebound. Looking forward, HK's economy is still facing economic challenges in 4Q2021 and 2022 as HK confronts the threat of Delta variant (DV) alongside the renewed surge in coronavirus cases intensifying in a number of emerging and developed economies. HK Government remains cautious by maintaining existing social distancing rules to avoid the spread of DV. We are of the view that HK's economy will embrace a stable pace of economic recovery in 4Q2021 and 2022 on higher vaccination rate closer to achieve towards herd immunity, expected reopening of border with mainland China and continuation of sectors' recovery. We remain cautiously optimistic towards HK's economy with GDP growth recovering to positive growth of 6.5% in 2021.

Consumer-related activities benefiting from 'Consumption Voucher Scheme'. Private consumption grew by 7.1% YoY from 1H2021's 4.4%, reflecting that the \$5000 e-voucher scheme is set for a fresh boost of growth momentum. Retail sales also continued to show growing strengths at 8% YoY during the first three quarters of 2021. However, closing borders for tourists' visits and limitation of cross-border business activities remain as a severe blow to consumption-related and tourism-related sectors, thus limiting the recovery of overall consumption. Looking forward, the stable local

epidemic situation and the 'Consumption Voucher Scheme' should continue to render support to the consumption-related activities in the near term. Further stimulus on consumption relies on the reopening of the border with the Mainland without quarantine. Gradual resumption of quarantine-free travel is being discussed between HK and mainland, but the movement will initially be limited to within Guangdong province. We are of the view that the partial reopening of the border will boost cross-border economic activities, thus enhancing recovery growth momentum in coming quarters. Given that consumption spending is a large part of HK GDP, HK recovery strengths will deepen further in 4Q2021 and 2022.

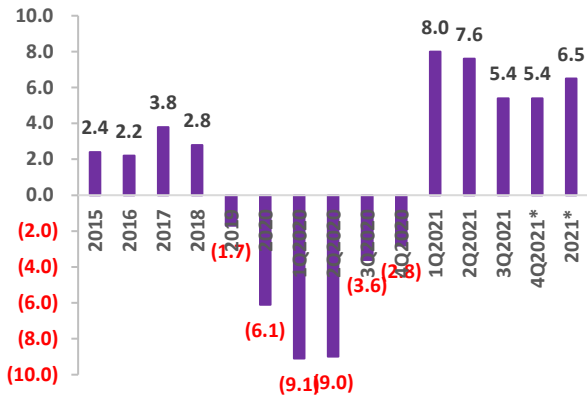
Unemployment rate downtrend remaining intact. The pandemic caused the stoppage of local and cross-border activities, thus pushing up unemployment rate to as high as 7.2% in the beginning of 2021. As vaccination program is embedded into great progress along with stable local epidemic, local mobility of people is enhanced which increases productivity and consumption. Economic recovery is on track that reduces the current unemployment rate to August-to-October's 4.3%. Falling unemployment rate among the consumption- and tourism-related sectors was most distinct in the food and beverage service activities while other sectors showing more visible declines in the unemployment rate include the decoration, repair and maintenance for buildings sector and the arts, entertainment and recreation sector. Looking forward, HK returning to full employment level before the pandemic hinges on the pace of economic recovery that is driven by the progress of vaccination program and reopening of cross-border activities. Given that the local epidemic remains well-contained, the pressure on the labor market will gradually ease further in the period ahead. In order to create more favorable conditions for the revival of economies activities, it is essential for the HK community to get vaccinated by keeping the pandemic under control that helps relieve HK's economic woes and accelerate revival of growth momentum.

Property market remaining resilient. Amid improving pandemic conditions and economic rebound, HK's residential property prices have resumed their upward trajectory since the beginning of 2021. Rising demand, transaction volumes and prices are attributed to improved market sentiment, the high levels of liquidity in the system as well as a low interest rates environment, thus pushing up property price by 4.5% during the first three quarters of 2021. Looking forward, the U.S. Federal Reserve (the Fed) signaled the market to wind down asset purchases amid rising inflation risks. However, the ongoing health crisis and recent supply chain chaos continue to pose risks to global economic outlook and we are of the view that the Fed will keep the interest rate unchanged until 1H2022. Low interest rate environment remains intact, thus brightening near-term outlook of HK property market. In addition, HK Government has announced plans to build a "Northern Metropolis" along its border with mainland China, uniting existing and planned development areas to provide more than 900,000 homes for some 2.5 million people. The plans help increase the supply of housing in medium term, thus strengthening healthy

development of HK property market. In sum, HK property market will continue to demonstrate positive sentiment in the face of rising optimism on the rebound of HK economic activities.

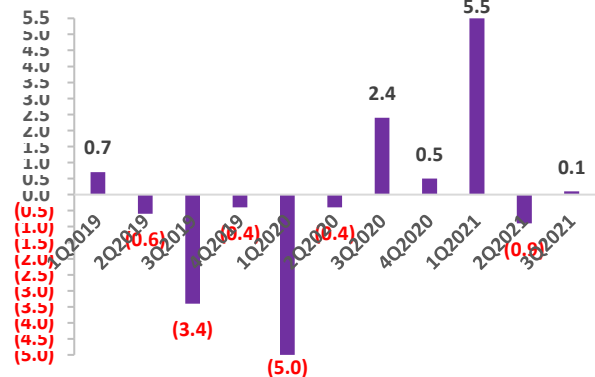
Cross-boundary Wealth Management Connect (WMC) elevating growing strengths of HK economy. The WMC becomes the major cross-border investment channel for wealth management products between cities in the Guangdong-Hong Kong (HK)-Macao Greater Bay Area (GBA), HK and Macao. The scheme not only generates new business opportunities for HK financial industry, but also promotes the cross-boundary circulation and use of RMB, thereby further consolidating HK's role as the global hub for offshore RMB. With a wealth of talent and professionals in financial, legal and professional services, HK will play a prime role in taking forward the WMC to link the cities by leveraging their collective strengths through coordinated efforts for economic and financial cooperation. We are of the view that the WMC further facilitates investment and financing, expands the opening-up of the financial sector, enhances the connectivity of financial markets and financial infrastructure as well as boosts innovation of the financial services, thus deepening financial cooperation in the GBA, strengthening HK's standing as an international financial center and contributing to sustainable growth of HK's economy.

Fig. 1: HK GDP Growth (YoY %)



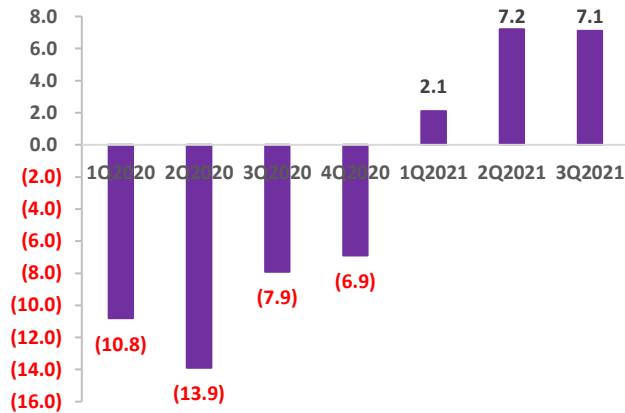
Source: HK Census and Statistics Department
*CEBI's forecast

Fig. 2: HK GDP Growth (QoQ%)



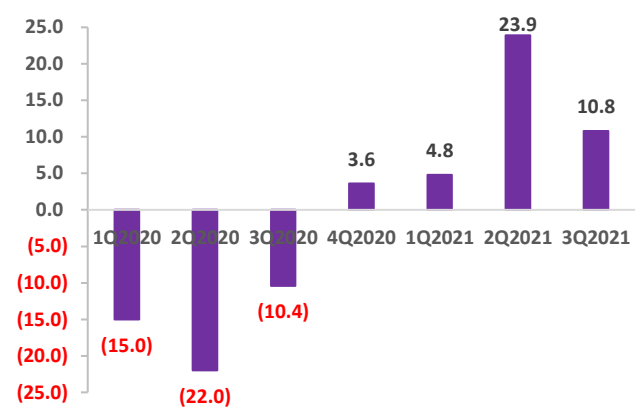
Source: HK Census and Statistics Department

Fig. 3: HK Private consumption expenditure (YoY% in real terms)



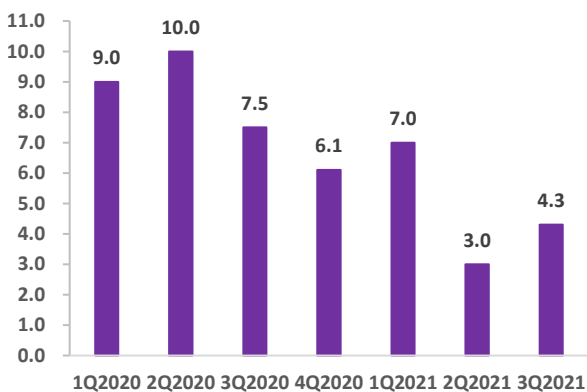
Source: HK Census and Statistics Department

Fig. 4: HK Gross domestic fixed capital formation (YoY% in real terms)



Source: HK Census and Statistics Department

Fig. 5: HK Government consumption expenditure (YoY% in real terms)



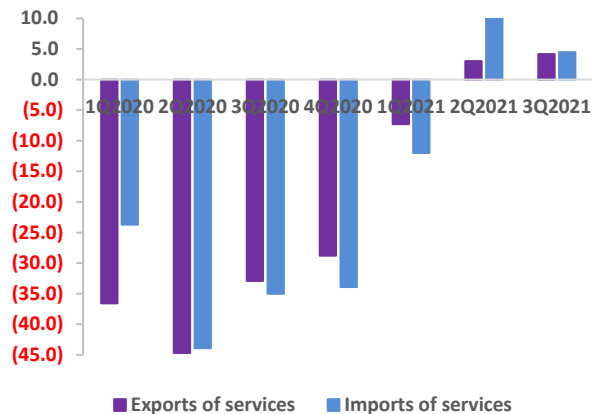
Source: HK Census and Statistics Department

Fig. 6: HK exports and imports of goods (f.o.b.) (YoY% in real terms)



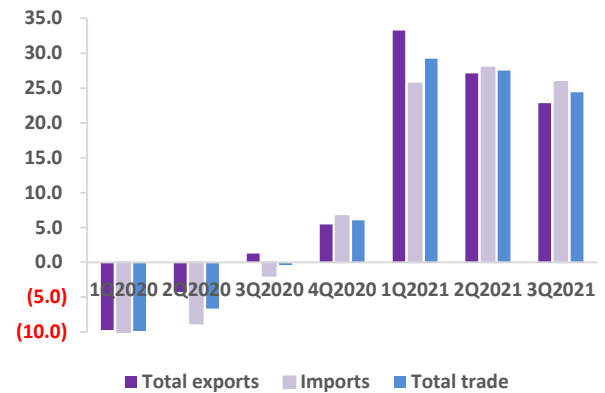
Source: HK Census and Statistics Department

Fig. 7: HK exports and imports of services (YoY% in real terms)



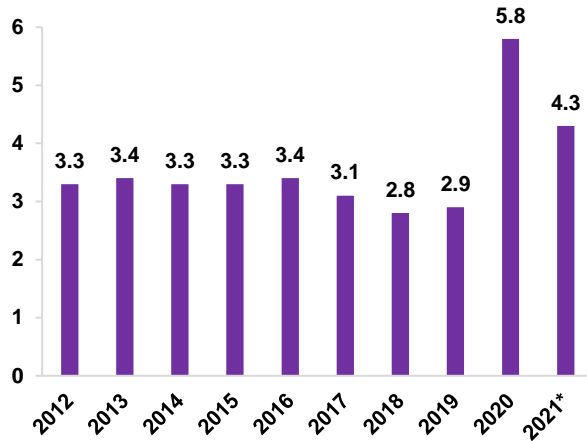
Source: HK Census and Statistics Department

Fig. 8: Value of external merchandise trade (YoY%)



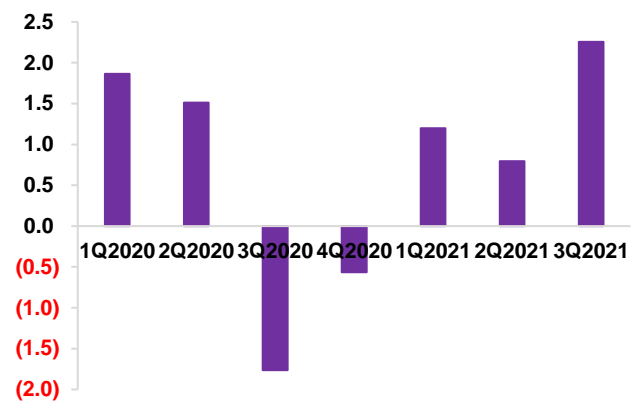
Source: HK Census and Statistics Department

Fig. 9: Unemployment rate (%)



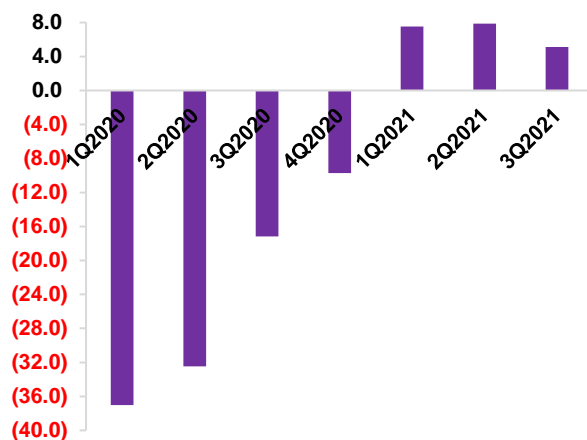
Source: HK Census and Statistics Department
* August to October

Fig.10: Consumer Price Index (CPI) (%)



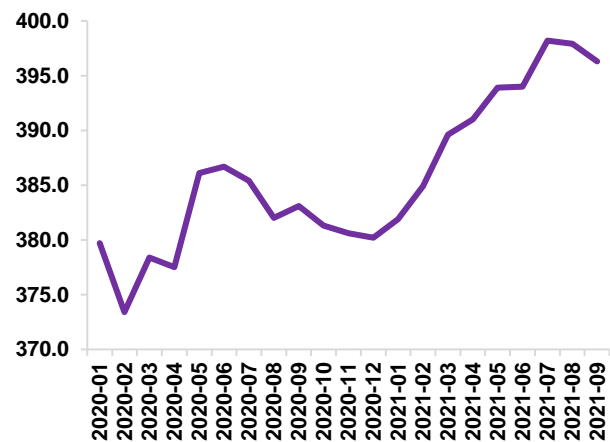
Source: HK Census and Statistics Department

Fig. 11: Volume of Total Retail Sales YoY%



Source: HK Census and Statistics Department

Fig. 12: HK Property Prices - Price Indices



Source: HK Rating and Valuation Department

China economic indicators

	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021	2Q2021	3Q2021
Real GDP (YoY%)	(6.8)	3.2	4.9	6.5	2.3	18.3	7.9	4.9
PMI Manufacturing (%)	45.9	50.8	51.2	51.8	51.9	51.3	51.0	50.0
PMI Non-Manufacturing (%)	45.3	53.7	55.1	56.1	55.7	53.4	54.5	51.3
Exports (RMB YoY %)	(11.7)	4.2	9.8	10.8	4.0	38.7	20.0	14.5
Imports (RMB YoY %)	(1.0)	(5.5)	4.8	0.3	(0.2)	19.3	32.0	16.2
Trade Balance (RMB/bn)	95.8	1065.4	1078.0	1395.0	3634.3	714.2	883.9	1170.9
Exports (USD YoY %)	(13.6)	(0.2)	8.4	16.6	3.6	48.8	30.7	24.4
Imports (USD YoY %)	(3.1)	(9.4)	3.7	5.7	(0.6)	29.3	43.8	25.9
Trade Balance (USD/bn)	12.6	151.2	152.8	207.4	524.0	109.4	136.6	181.5
CPI (YoY %)	4.9	2.7	2.3	0.1	2.5	0.0	1.1	0.8
PPI (YoY %)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1	8.2	9.6
FAI (YTD/ YOY %)	(16.1)	(3.1)	0.8	2.9	2.9	25.6	12.6	7.3
Real Estate Investment (YTD YoY %)	(7.7)	1.9	5.6	7.0	7.0	25.6	15.0	8.8
Industrial Production (YoY %)	(8.4)	4.4	5.8	7.1	2.8	24.5	9.0	4.9
Retail Sales (YoY%)	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	13.9	5.0
New Lending (RMB/bn)	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9	5084.5	3961.4
M2 (YoY %)	10.1	11.1	10.9	10.1	10.1	9.4	8.6	8.3
Aggregate Financing (RMB bn)	11111.0	9757.4	8747.4	5176.0	34791.8	10288.5	7509.8	6949.9

	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21	Sept 21	Oct 21
Real GDP (YoY%)	-	-	6.5	-	-	18.3	-	-	7.9	-	-	4.9	-
PMI - Manufacturing %	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2
PMI - Non-manufacturing%	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3	47.5	53.2	52.4
Exports (RMB YoY %)	7.2	14.5	10.9	16.5	139.3	20.6	22.0	18.0	20.2	8.1	15.7	19.9	20.3
Imports (RMB YoY %)	0.6	(1.4)	(0.2)	20.1	11.7	28.6	33.0	39.9	24.4	16.2	23.1	10.1	14.5
Trade Balance (RMB/bn)	395.7	502.8	509.2	405.8	232.4	76.1	265.7	287.8	330.4	361.0	376.6	433.2	546.0
Export (USD YoY %)	10.9	20.6	18.1	24.6	154.7	30.5	32.1	27.8	32.2	19.3	25.6	28.1	27.1
Import (USD YoY %)	4.4	3.9	6.5	28.6	18.8	39.1	43.9	51.6	36.9	28.2	33.1	17.6	20.6
Trade Balance (USD/bn)	57.3	74.3	75.8	61.9	35.6	11.9	41.2	44.3	51.2	56.3	58.4	66.8	84.6
CPI (YoY %)	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5
PPI (YoY %)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0	9.5	10.7	13.5
FAI (YTD/ YOY %)	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3	8.9	7.3	6.1
Real Estate Investment (YTD/ YoY %)	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7	10.9	8.8	7.2
Industrial Production (YoY %)	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5
Retail Sales (YoY%)	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9
New Lending (RMB/bn)	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0	826.2
M2 (YoY %)	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3	8.2	8.3	8.7
Aggregate Financing (RMB bn)	1392.9	2135.5	1647.6	5187.2	1724.3	3377.0	1856.7	1952.2	3700.9	1075.2	2972.9	2901.8	1590.0
Urban Unemployment Rate (%)	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.1	4.9	4.9
Urban Unemployment Rate in 31 major cities (%)	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.3	5.0	5.1

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	35,619.25	19.86	(1.30)
S&P 500	4,682.94	25.71	0.00
NASDAQ	15,854.76	89.76	0.01
EUR			
FTSE 100	7,255.46	17.40	(1.31)
DAX	16,115.69	15.94	(0.20)
CAC40S	7,105.00	21.49	(0.33)
STOXX EUR 600	485.46	20.73	(0.61)
Asia			
HSI	24,951.34	9.93	(1.73)
HSCEI	8,929.78	7.91	(1.72)
CSI300	4,912.40	16.79	0.61
SSE Composite	3,582.08	15.24	1.38
SZSE Composite	2,525.58	37.14	2.57
NIKKEI 225	29,774.11	16.97	(0.01)
KOSPI	3,013.25	14.11	0.46
TWSE	17,803.54	14.58	0.96
S&P/ASX 200	7,353.08	23.00	(1.57)
MSCI Index			
MSCI WORLD	3,201.49	22.84	(0.77)
MSCI DEVELOPED	750.57	21.39	(0.91)
MSCI EMERGING	1,261.56	14.29	(1.96)
MSCI US	4,537.01	26.38	(0.27)
MSCI UK	2,041.79	16.95	(1.28)
MSCI France	203.05	22.04	(0.44)
MSCI Germany	174.39	15.77	(0.30)
MSCI China	91.27	15.79	(2.14)
MSCI Hong Kong	15,315.79	22.31	0.16
MSCI Japan	1,262.78	15.60	(0.02)

* As of 2021/11/22 closing for all markets.

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.0583	0.02
US Treasury (1 Yr)	0.1777	0.025
US Treasury (5 Yr)	1.3168	0.06
US Treasury (10 Yr)	1.6236	0.009
US Treasury (30 Yr)	1.9615	(0.03)
1-Month LIBOR	0.0934	0.004
3 Month LIBOR	0.1640	0.009
Japan 1-Yr Gov. Bond	(0.126)	(0.040)
Japan 10-Yr Gov. Bond	0.075	0.01
German 1-Yr Gov. Bond	(0.750)	(0.02)
German 10-Yr Gov. Bond	(0.301)	(0.07)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.252	0.02
China 5-Yr Gov. Bond	2.735	(0.00)
China 10-Yr Gov. Bond	2.917	(0.01)
O/N SHIBOR	1.946	0.16
1-mth SHIBOR	2.350	(0.01)
HK Base rate	0.50	0.00
O/N HIBOR	0.0518	0.0097
1-mth HIBOR	0.0970	0.026
O/N CNH HIBOR	2.0401	(0.41)
1-mth CNH HIBOR	2.8510	0.150
Corporate Bonds (Moody's)		
Aaa	2.63	0.02
Baa	3.27	0.00

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	76.75	(5.11)
ICE Brent Oil	USD/bbl	79.70	(2.86)
NYMEX Natural	USD/MMBtu	4.79	(4.54)
Basic Metals			
LME Aluminum	USD/MT	2,693.49	1.37
CMX Copper	USD/lb.	439.65	(0.15)
LME Steel Rebar	USD/MT	722.00	0.00
LME Lead Cash	USD/MT	2,271.00	(3.53)
Precious Metals			
CMX Gold	USD/T. oz	1,839.61	(1.27)
Gold Futures	USD/T. oz	1,809.10	(3.22)
CMX Silver	USD/T. oz	24.72	(1.99)
NYMEX Platinum	USD/T. oz	1,034.95	(4.11)
Agricultural			
CBOT Corn	USD/bu	584.25	0.04
CBOT Wheat	USD/bu	857.50	2.48
NYB-ICE Sugar	USD/lb.	19.76	0.10
CBOT Soybeans	USD/bu.	1,274.25	1.35

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.55	1.20
Euro/USD	1.1286	(1.42)
GBP/USD	1.3439	0.13
AUD/USD	0.7257	(1.47)
USD/CAD	1.2635	0.89
USD/JPY	114.16	0.25
USD/CHF	0.9283	0.89
USD/CNY Midpoint	6.3952	0.09
USD/CNY	6.3851	0.03
USD/CNY NDF-12-mth	6.5596	0.06
USD/CNH	6.3812	0.00
USD/HKD	7.7918	0.02
CNY/HKD	1.2201	(0.04)
CNH/HKD	1.2210	0.02
USD/KRW	1,185.15	0.57
USD/TWD	27.78	0.02
USD/SGD	1.3618	0.80
USD/INR	74.40	(0.06)

All data sources: Bloomberg

Disclosures

Analyst Certification

I, LAM Chiu Kei, Banny (CE Number: AGH217) being the person primarily responsible for the content of this research report, in whole, hereby certify that all of the views expressed in this report accurately reflect my personal view about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. I and/or my associates have no financial interests in relation to any listed company(ies) covered in this report, and I and/or my associates do not serve as officer(s) of any listed company(ies) covered in this report.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. CEB International Capital Corporation Limited is under no obligation to update or keep current the information contained herein. CEB International Capital Corporation Limited relies on information barriers to control the flow of information contained in one or more areas within CEB International Capital Corporation Limited, into other areas, units, groups or affiliates of CEB International Capital Corporation Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of CEB International Capital Corporation Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither CEB International Capital Corporation Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2021 CEB International Capital Corporation Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of CEB International Capital Corporation Limited.

**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600**